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ANNUAL REPORT 1969

for the Year Ending January 31, 1970

KING'S

DEPARTMENT STORES, INC.

TEN-YEAR FINANCIAL SUMMARY

For The Years Ended January 31

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Total Sales	$213,091,000	$201,288,000	$156,771,000	$128,392,000	$111,706,000	$100,819,000	$80,686,000	$62,031,000	$51,362,000	$41,854,000
Leased Department Sales	32,361,000	32,019,000	26,847,000	22,351,000	27,041,000	28,722,000	22,770,000	14,416,000	9,917,000	6,994,000
Net Sales	180,730,000	169,269,000	129,924,000	106,041,000	84,665,000	72,097,000	57,916,000	47,615,000	41,445,000	34,860,000
Leased Department and Other Income	3,655,000	3,609,000	2,771,000	2,386,000	2,887,000	3,012,000	2,287,000	1,504,000	1,047,000	747,000
Total Income	184,385,000	172,878,000	132,695,000	108,427,000	87,552,000	75,109,000	60,203,000	49,119,000	42,492,000	35,607,000
Cost of Goods Sold and Expenses	171,535,000	162,256,000	123,649,000	100,930,000	80,884,000	69,315,000	56,911,000	46,512,000	39,865,000	34,412,000
Income before Taxes	12,850,000	10,622,000	9,046,000	7,497,000	6,668,000	5,794,000	3,292,000	2,607,000	2,627,000	1,195,000
Provision for Taxes	6,601,000	5,071,000	4,249,000	3,393,000	2,990,000	2,690,000	1,571,000	1,306,000	1,293,000	519,000
Net Income	6,249,000	5,551,000	4,797,000	4,104,000	3,678,000	3,104,000	1,721,000	1,301,000	1,334,000	676,000
Earnings Per Share*	1.46	1.30	1.13	.97	.87	.74	.42	.32	.33	.17
Stock Split (Stock Dividend)	—	2 for 1	5 for 4	10%	—	5 for 4	5%	5%	2%	—
Cash Dividends	.40	.40	.25	.25	.25	.15	—	—	—	—
Number of Stores	79	78	68	45	41	35	31	25	18	13

*Based on average number of shares outstanding for each year.

Financial Highlights

	1970	1969	Percent Change
Current Assets	$37,989,000	$35,660,000	+ 6.5%
Current Liabilities	13,379,000	16,555,000	−19.2%
Working Capital	24,610,000	19,105,000	+28.8%
Current Ratio	2.8	2.2	+27.3%
Stockholders' Equity	32,084,000	27,416,000	+17.0%
Equity Per Share*	7.49	6.41	+16.8%
Cash Dividend	.40	.40	

TO OUR STOCKHOLDERS:

May 1, 1970

The fiscal year ending January 31, 1970 marked King's twentieth anniversary, a year in which solid gains in Sales and Earnings, spread widely through individual profit centers, characterized King's growth.

OPERATING RESULTS

Reflecting this progress, net earnings rose 13% to a total of $6,249,000, a gain of $698,000 over the previous year.

Pre-tax income was 6% of sales and we achieved a 23% return on invested capital of $27,416,000 at February 1, 1969.

Sales for the year ended January 31, 1970 were up 6% to $213,091,000 compared with $201,288,000 for 1968.

Earnings per share increased to $1.46 from $1.30. The tax benefit of $365,000 ($225,000 in 1969) derived from the net operating loss carry-forward of Miracle Mart, Inc. has been applied to reduce goodwill on the accompanying balance sheet. This amounted to 9¢ per share in 1970 and 5¢ per share in 1969. (See Note 6 to Financial Statements.)

These new record highs in profits and sales for 1969 are especially significant since they were accomplished with the addition of the partial year's volume of but one new store in a year in which many retailers were adversely affected.

DIVIDENDS

The quarterly dividend of 10¢ per share authorized by the Board of Directors and paid March 9, 1970 represented the 21st consecutive cash dividend paid by King's. The cash dividends paid in 1969 amounted to $1,712,000.

FINANCIAL POSITION

We are pleased to report that our historically strong financial position has again been augmented by increased earnings.

At fiscal year's end, current assets were $37,989,000 with current liabilities of $13,379,000. Our net working capital increased to $24,610,000 from $19,105,000 for the previous year. Stockholders' equity rose to $7.49 per share from $6.41.

OUTLOOK

We have achieved the goals we planned by our decision to limit the number of store openings in 1969. The twenty-five stores that we opened in 1968 (10 new and 15 acquired) have been profitably digested. The acquisitions have been renovated, refixtured, relayed and are now operating under the name "KING'S" with King's trained staffs. Our reservoir of skilled personnel of executive caliber is again at levels that permit secure growth.

In March, 1970, we were able to eliminate continuing losses of two stores located in economically depressed areas by sub-leasing them on an advantageous basis.

It has been shown that our existing stores are very profitable and will continue to gain as a result of population expansion and higher standards of living. King's growth during 1970 will not be limited to these elements as additional profitable volume will be gained from new stores.

We opened Fairless Hills, Pennsylvania, March 2, 1970 and stores are presently under construction in Greenville, North Carolina, Gettysburg, Pennsylvania, Oak Ridge and Madisonville, Kentucky and Kingsport, Tennessee. Leases are actively being negotiated for other approved sites.

Murray A. Candib
President

Aaron O. Cohen
Chairman

In addition, we opened freestanding "Sew 'n Sew" fabric centers in Hyannis, Massachusetts and Plaistow, New Hampshire in April. "Sew 'n Sew" stores are scheduled for East Longmeadow, Massachusetts, Plattsburgh, New York and Portland, Maine. These five thousand square foot centers offer yard goods in depth, custom-made drapes, selected domestics, yarns, sewing patterns and sewing machines. We are opening these new units to meet the rising demand for home sewing materials and equipment.

ACKNOWLEDGMENT

The excellent fiscal 1969 results tell a story of a shared effort by all members of our business family. This cooperation led to our highest earnings and our greatest sales volume in a year marked by numerous challenges.

With the continuing dedication of our fellow associates, assisted by the confidence expressed in us by our customers, our suppliers and our shareholders, we are sure that we will be able to report to you achievements even greater for 1970.

Respectfully submitted on behalf of
the Board of Directors

Murray A. Candib
President

Aaron O. Cohen
Chairman

KING'S
ELECTRONICS

CONSOLIDATED
STATEMENT OF

Source and Application of Funds

Year ending January 31, 1970 with comparative figures for 1969

Funds were provided by:

	1970	1969
Net earnings for the year	$6,249,000	$5,551,000
Add charges against earnings, such as depreciation and amortization, minority interest and deferred credits, not requiring funds	1,899,000	1,591,000
	8,148,000	7,142,000
Sale of common shares under stock option plans	131,000	47,000
Reduction in long-term receivables and other assets	—	330,000
Total funds provided	$8,279,000	$7,519,000

Funds were applied to:

Additions to fixed assets	$ 915,000	$1,978,000
Cash dividends	1,712,000	1,710,000
Decrease in long-term obligations	121,000	1,077,000
Miscellaneous	26,000	26,000
Increase in working capital	5,505,000	2,728,000
Total funds applied	$8,279,000	$7,519,000

See accompanying notes to consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
2000 Tower Building
Prudential Center
Boston, Massachusetts 02199

The Stockholders and
Board of Directors
King's Department Stores, Inc.

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1970 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1970 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended January 31, 1970 presents fairly the information shown therein.

April 7, 1970

PEAT, MARWICK, MITCHELL & CO.

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

Statement of Consolidated Earnings and Retained Earnings
Year ended January 31, 1970 with comparative figures for 1969

	1970	1969
Total store sales	$213,091,000	$201,288,000
Less leased department sales	32,361,000	32,019,000
Net sales	180,730,000	169,269,000
Leased department income	3,521,000	3,358,000
Interest and other income, net	134,000	251,000
Total income	184,385,000	172,878,000
Cost of goods sold, transportation, warehousing and buying expenses	126,453,000	119,123,000
Store operating, administrative and general expenses, including leased department expenses	43,731,000	41,926,000
Depreciation and amortization	1,166,000	1,074,000
Minority interest in earnings of a subsidiary	185,000	133,000
Total costs and expenses	171,535,000	162,256,000
Earnings before Federal income taxes	12,850,000	10,622,000
Federal income taxes (note 6)	6,601,000	5,071,000
Net earnings	6,249,000	5,551,000
Retained earnings at beginning of year	16,827,000	12,986,000
	23,076,000	18,537,000
Deduct cash dividends paid, $.40 per share	1,712,000	1,710,000
Retained earnings at end of year	$ 21,364,000	$ 16,827,000
Net earnings per common share based on average number of shares outstanding for each year (note 4)	$ 1.46	$ 1.30

See accompanying notes to consolidated financial statements.

Consolidated

January 31, 1970 with

Assets

	1970	1969*
Current assets:		
Cash	$ 8,012,000	$ 4,170,000
Restricted cash (note 2)	802,000	996,000
Receivables:		
Notes	726,000	95,000
Budget receivables	100,000	110,000
Other	557,000	396,000
	1,383,000	601,000
Less allowance for doubtful receivables	75,000	76,000
Net receivables	1,308,000	525,000
Merchandise inventories, at lower of cost or market, principally by the retail method	27,733,000	29,830,000
Prepaid expenses	134,000	139,000
Total current assets	37,989,000	35,660,000
Fixed assets, at cost (note 3):		
Land	149,000	149,000
Land Improvement	94,000	94,000
Fixtures and equipment	12,087,000	11,177,000
Leasehold improvements	1,360,000	1,355,000
	13,690,000	12,775,000
Less accumulated depreciation and amortization	6,662,000	5,496,000
Net fixed assets	7,028,000	7,279,000
Other assets:		
Goodwill (note 2)	151,000	516,000
Unamortized leasehold acquisition costs (being amortized over lives of leases)	1,103,000	1,192,000
Other investments and deposits	358,000	332,000
Total other assets	1,612,000	2,040,000
	$46,629,000	$44,979,000

*Certain accounts have been reclassified to conform to 1970 presentation.
See accompanying notes to consolidated financial statements.

Balance Sheet

comparative figures for 1969

Liabilities and Stockholders' Equity

	1970	1969*
Current liabilities:		
Notes payable:		
Banks	$ 4,000,000	$ 6,146,000
Other	92,000	98,000
Total notes payable	4,092,000	6,244,000
Chapter XI liabilities (note 2)	106,000	1,309,000
Accounts payable	3,511,000	3,821,000
Accrued expenses	2,398,000	2,148,000
Federal income taxes	3,272,000	3,033,000
Total current liabilities	13,379,000	16,555,000
Deferred compensation	250,000	200,000
Deferred Federal income taxes applicable to:		
Accelerated depreciation deducted for tax purposes	571,000	501,000
Deferred compensation	(120,000)	(96,000)
Net deferred Federal income taxes	451,000	405,000
Long-term obligations	29,000	150,000
Minority interest in a subsidiary	436,000	253,000
Stockholders' equity:		
Common stock, $1 par value (note 4) Authorized 10,000,000 shares; issued 4,293,000 shares (1969 - 4,277,000 shares)	4,293,000	4,277,000
Additional paid-in capital (note 5)	6,427,000	6,312,000
Retained earnings	21,364,000	16,827,000
Total stockholders' equity	32,084,000	27,416,000
	$46,629,000	$44,979,000

Commitments (note 7)

Notes to Consolidated Financial Statements

January 31, 1970

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned except Miracle Mart, Inc. which is approximately 81% owned.

On October 16, 1967 the Company acquired 81% of the outstanding capital stock of Miracle Mart, Inc., the purchase price of which has not finally been determined. Total advance payments in the amount of $1,161,416 have been made against the purchase price pending final determination of liabilities in the bankruptcy proceedings described in note (2) below.

(2) Proceedings under Federal Bankruptcy Act

Miracle Mart, Inc. has been a party to various actions in which creditors have made claims under Chapter XI of the Federal Bankruptcy Act, most of which have been settled. As to the claims which are still being disputed, if they are allowed in the full face amounts thereof, after giving effect to the 30% basis for general claims pursuant to the Miracle Mart Plan of Arrangement confirmed by the referee in bankruptcy on October 16, 1967, Miracle Mart will incur aggregate liabilities approximating $4,160,000. Liabilities totalling approximately $3,790,000 have either been discharged by payment or accrued or reserved against in the consolidated balance sheet of the Company and its subsidiaries at January 31, 1970.

If Miracle Mart's liabilities to creditors in the Chapter XI proceedings are allowed in the maximum amount of $4,160,000, the amount of goodwill included in the consolidated balance sheet at January 31, 1970 would be increased by about $370,000.

The restricted cash of $802,000, shown in the consolidated balance sheet is being administered by a Court appointed trustee in connection with the liquidation of Miracle Mart Chapter XI liabilities.

(3) Fixed Assets — Depreciation and Amortization Policy

Depreciation of fixed assets and amortization of leasehold improvements are provided for book purposes on the straight-line method at rates which are sufficient to write off the cost of the assets over their estimated useful lives. The depreciation and amortization rates used during the period were 4% on land improvements and 10% on fixtures and equipment and leasehold improvements.

(4) Stock Option Plans

Options to purchase shares of common stock have been granted to officers and key employees at 100% of fair market value on date of grant, exercisable at the cumulative rate of 25% annually. At January 31, 1970, 100,000 shares were available for future grants.

There were outstanding at January 31, 1970 options to purchase 38,250 shares at prices ranging from $8.09 to $13.00 a share. During the year, options were exercised to purchase 16,079 shares at prices ranging from $8.09 to $13.00 a share or a total of $131,621, as compared with quoted market prices ranging from $16.75 to $23.50 a share or a total of $320,503. Options to purchase 9,713 shares were exercisable at January 31, 1970 at prices ranging from $8.09 to $13.00 a share.

The Company has not included reserved option shares of its common stock in the calculations of net earnings per share since the effects of such inclusion would not be material.

(5) Additional Paid-in Capital

Balance January 31, 1969	$6,312,000
Excess of option price over par value of 16,079 shares issued under stock option plans	115,000
Balance January 31, 1970	$6,427,000

(6) Federal Income Taxes

	1970	1969
Taxes currently payable	$6,230,000	$4,908,000
Utilization of net operating loss carry-forward of Miracle Mart, Inc.	365,000	225,000
Investment credit	(34,000)	(86,000)
Deferred taxes, net	40,000	24,000
	$6,601,000	$5,071,000

The tax benefit of $365,000 ($225,000 in 1969) derived from the net operating loss carry-forward of Miracle Mart, Inc. has been applied to reduce goodwill on the accompanying balance sheet. This amounted to 9¢ per share in 1970 and 5¢ per share in 1969.

(7) Commitments

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amount to approximately $6,336,000 at January 31, 1970. Such leases will expire on various dates to 1994; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expenses for the year amounted to approximately $7,730,000.

Directors

Murray A. Candib

Aaron O. Cohen

Benjamin M. Fiegar

Aaron G. Goldberg

Nathan Greenberg

Jack I. Hartblay

William F. Kenney

Charles J. Kittredge, Senior Vice President,
The First National Bank of Boston

H. Stanley Krusen, President,
Shearson, Hammill & Co., Incorporated,
New York

Officers

Aaron O. Cohen,
Chairman of the Board

Murray A. Candib,
President

William F. Kenney,
Executive Vice President

Aaron G. Goldberg,
Vice President—Merchandising

Jack I. Hartblay,
Vice President—N. Y. Office

Nathan Greenberg,
Vice President—Finance;
Secretary

Benjamin Fiegar,
Vice President—Treasurer

Transfer Agents

Old Colony Trust Company, Boston.
Marine Midland Trust Company, New York.

Registrars

First National Bank of Boston.
Chemical Bank New York Trust Company.

General Counsel

Parker, Chapin and Flattau, New York.

Auditor

Peat, Marwick, Mitchell & Co.

Executive Offices 150 California Street, Newton, Massachusetts 02158

King's Department Stores, Inc. and Subsidiaries

COLORADO
Denver

CONNECTICUT
Manchester
Meriden
Milford
New Haven
Seymour
Stamford
West Hartford

FLORIDA
Ft. Lauderdale
West Palm Beach

INDIANA
Ft. Wayne (3)

KENTUCKY
Owensboro

MAINE
Auburn
Bangor
Falmouth

MARYLAND
Cumberland
Hagerstown

MASSACHUSETTS
Braintree
Brockton
East Longmeadow
Fitchburg
Hyannis
Methuen
Newton
North Attleboro
Quincy
Shrewsbury
Springfield
Tewksbury
West Roxbury

MICHIGAN
Grand Rapids

NEW HAMPSHIRE
Concord
Plaistow
Portsmouth

NEW JERSEY
Edgewater Park
Vineland

NEW YORK
Albany
Buffalo (3)
Niagara Falls
Niagara
Plattsburgh

NORTH CAROLINA
Asheboro
Durham
Goldsboro
Greensboro
Raleigh
Sanford
Shelby
Statesville
Winston-Salem (2)
Wilmington

OHIO
Alliance
Lancaster
Niles
Youngstown (2)

PENNSYLVANIA
Allentown
Cleona
Harrisburg
Johnstown
Kingston
Lansdale
Minersville
Reading
Scranton
Wilkes Barre
York (2)

VERMONT
Rutland

VIRGINIA
Newport News
Norfolk (2)
Richmond (2)
Virginia Beach

Coronet Cosmetics, Inc., Newton, Mass.

Noble Specialties, Inc., Newton, Mass.

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